

FINANCIAL REPORT
POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
POSEN, MICHIGAN
June 30, 2007

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
FINANCIAL REPORT
Year Ended June 30, 2007

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

September 14, 2007

Independent Auditors' Report

Superintendent and Board of Education
Posen Consolidated School District No. 9
Posen, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District No. 9, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District No. 9, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2007, on our consideration of Posen Consolidated School District No. 9's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Posen Consolidated School District No. 9
Posen, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Posen Consolidated School District No. 9's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

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Management's Discussion and Analysis

Overview of the Basic Financial Statements

Posen Consolidated School District No. 9's (the District's) basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the District's nonfiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the District's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net costs of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separate from the governmental funds, due to the fact that these assets do not represent assets of the District. These assets are not presented as part of the government-wide financial statements.

Posen Consolidated School District No. 9 maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, and the 2005 Refunding Debt Service Funds, which are considered major funds. Data from the other three governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

MISSION STATEMENT

The mission of Posen Consolidated School is to promote skills for adapting to an ever changing environment, while encouraging responsible citizens and lifelong learners.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the District's net assets as of June 30, 2007 and 2006:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 1,177,585	\$ 1,074,815
Capital assets, net of accumulated depreciation	4,219,144	4,405,523
Deferred charges	<u>67,004</u>	<u>71,790</u>
Total assets	<u>5,463,733</u>	<u>5,552,128</u>
Liabilities		
Current liabilities	1,023,683	971,770
Noncurrent liabilities	<u>3,249,355</u>	<u>3,433,789</u>
Total liabilities	<u>4,273,038</u>	<u>4,405,559</u>
Net Assets		
Investment in capital assets, net of debt	739,421	739,421
Restricted	173,040	132,121
Unrestricted	<u>278,234</u>	<u>275,027</u>
Total net assets	<u><u>\$ 1,190,695</u></u>	<u><u>\$ 1,146,569</u></u>

At the end of the fiscal year, Posen Consolidated School District No. 9 is able to report positive balances in all three categories of net assets. As in 2006, the largest portion of the School's net assets is its investment in capital assets (land, buildings, equipment and vehicles), less any outstanding debt used to acquire those assets. The District uses these capital assets in providing educational services, consequently these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to spending restrictions by parties outside the District, such as creditors and grantors. The District's net assets are restricted for debt service.

The remaining portion of net assets, unrestricted net assets, may be used at the District's discretion to meet ongoing obligations.

The results for the District as a whole are reported in the Statement of Activities, which is summarized below:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Year Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 82,721	\$ 67,731
Grants and contributions	372,785	342,680
General revenue:		
Property taxes	1,061,589	981,435
State aid, unrestricted	1,316,631	1,353,614
Interest and investment earnings	27,415	19,470
Other	22,099	12,504
Total revenues	<u>2,883,240</u>	<u>2,777,434</u>
Function/Program Expenses		
Instruction	1,456,641	1,433,248
Support services	804,767	769,523
Food services	126,140	127,689
Athletics	106,988	104,078
Interest/fees on long-term debt	158,199	176,534
Depreciation (unallocated)	186,379	180,759
Total expenses	<u>2,839,114</u>	<u>2,791,831</u>
Extraordinary items, net	<u>-</u>	<u>{74,749}</u>
Change in net assets	44,126	{89,146}
Net assets - beginning of year	<u>1,146,569</u>	<u>1,235,715</u>
Net assets - end of year	<u>\$ 1,190,695</u>	<u>\$ 1,146,569</u>

As reported above, the District recorded \$2,839,114 of program expenses. These expenses were funded minimally by charges for services. The majority of the District's revenues were from unrestricted state aid (46%), property taxes (37%), and grants and contributions (13%).

The District experienced an increase in net assets primarily due to cutting programs and expenses where possible.

Fund Financial Analysis

As of year-end, the governmental funds reported a combined fund balance of \$390,359, which is approximately \$74,412 higher than the beginning of the year. The increase is due primarily from cutting costs.

General Fund Budgetary Highlights

Final budgeted revenues were decreased from original budgeted amounts due to less than anticipated state and federal revenues.

Final budgeted expenditures were lower than original budgeted expenditures due to cost saving measures that were implemented by the District throughout the year.

Final expenditures were lower than final budgeted amounts by approximately \$30,000. This is mainly due to careful budgeting practices implemented throughout the year by the District.

Capital Assets

At June 30, 2007, the District had \$7.8 million invested in capital assets. The following table summarizes the capital asset activity for the year:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9

Year Ended June 30, 2007

	July 1, 2006	Additions	Disposals	June 30, 2007
Land and improvements	\$ 698,485	\$ -	\$ -	\$ 698,485
Buildings and improvements	6,234,467	-	-	6,234,467
Furniture and equipment	520,428	-	-	520,428
Vehicles	347,733	-	-	347,733
Total capital assets	7,801,113	-	-	7,801,113
Less accumulated depreciation	(3,395,590)	(186,379)	-	(3,581,969)
Net capital assets	<u>\$ 4,405,523</u>	<u>\$ (186,379)</u>	<u>\$ -</u>	<u>\$ 4,219,144</u>

Economic Factors

Posen Consolidated School District #9 has had declining enrollment for the previous five years, however, in the current year the enrollment is up slightly. The District's operating revenue is based on student enrollment as well as the amount of funding per student. The student enrollment currently is 301.

The 2006-2007 school year state aid funding was \$7,085 per student enrolled. In addition, categorical funding had also been reduced. The Title programs funding has been cut by about 10% this year.

In the current year, the revenue increased but costs have continued to increase as well. The increase of 12% in health insurance for the teaching staff and support staff, an increase in the natural gas, electricity, and bus fuel are other examples of increased costs.

Posen Consolidated School District has had to utilize its operating fund balance for the last four years to continue to operate and meet expenditures. The Art and Band programs have been dropped from the curriculum. Split classrooms (combination rooms) were implemented for three elementary grades. A portion of the current general fund balance of approximately \$180,000 will be utilized in the upcoming year to help offset the items noted above.

Financial Contact

The District's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Posen Consolidated School District No. 9.

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Net Assets
June 30, 2007

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets	
Cash	\$ 283,032
Investments	627,203
Due from other governmental units	<u>267,350</u>
Total current assets	<u>1,177,585</u>
Noncurrent Assets	
Capital assets	7,801,113
Less: accumulated depreciation	<u>(3,581,969)</u>
Total capital assets	4,219,144
Deferred charges	<u>67,004</u>
Total noncurrent assets	<u>4,286,148</u>
Total assets	<u><u>\$ 5,463,733</u></u>
 <u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 11,457
Accrued interest payable	63,725
State aid notes payable	525,000
Bonds payable, due within one year	191,964
Accrued expenses	95,643
Salaries payable	<u>135,894</u>
Total current liabilities	<u>1,023,683</u>
Noncurrent Liabilities	
Bonds payable	3,213,355
Retirement allowance payable	<u>36,000</u>
Total noncurrent liabilities	<u>3,249,355</u>
Total liabilities	<u>4,273,038</u>
Net Assets	
Investment in capital assets, net of related debt	739,421
Restricted for debt service	173,040
Unrestricted	<u>278,234</u>
Total net assets	<u>1,190,695</u>
Total liabilities and net assets	<u><u>\$ 5,463,733</u></u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 1,456,641	\$ 4,200	\$ 265,051	\$ (1,187,390)
Support services	804,767	-	-	(804,767)
Food services	126,140	52,135	70,205	(3,800)
Athletics	106,988	26,386	37,529	(43,073)
Interest/fees on long-term debt	158,199	-	-	(158,199)
Depreciation (unallocated)	186,379	-	-	(186,379)
Total governmental activities	<u>\$ 2,839,114</u>	<u>\$ 82,721</u>	<u>\$ 372,785</u>	<u>(2,383,608)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				713,774
Property taxes, levied for debt services				347,815
State aid, unrestricted				1,316,631
Interest and investment earnings				27,415
Other				<u>22,099</u>
Total general revenues				<u>2,427,734</u>
Change in net assets				44,126
Net assets - beginning of year				<u>1,146,569</u>
Net assets - end of year				<u>\$ 1,190,695</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Balance Sheet
June 30, 2007

	General	2005 Refunding Debt Service	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash	\$ 71,957	\$ 173,040	\$ 38,035	\$ 283,032
Investments	627,203	-	-	627,203
Due from other governmental units	266,138	-	1,212	267,350
Total assets	<u>\$ 965,298</u>	<u>\$ 173,040</u>	<u>\$ 39,247</u>	<u>\$ 1,177,585</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 11,457	\$ -	\$ -	\$ 11,457
Interest payable	19,232	-	-	19,232
State aid notes payable	525,000	-	-	525,000
Accrued expenditures	90,008	-	5,635	95,643
Salaries payable	133,469	-	2,425	135,894
Total liabilities	<u>779,166</u>	<u>-</u>	<u>8,060</u>	<u>787,226</u>
Fund Balances:				
Reserved for debt service	-	173,040	-	173,040
Unreserved:				
Undesignated	<u>186,132</u>	<u>-</u>	<u>31,187</u>	<u>217,319</u>
Total fund balances	<u>186,132</u>	<u>173,040</u>	<u>31,187</u>	<u>390,359</u>
Total liabilities and fund balances	<u>\$ 965,298</u>	<u>\$ 173,040</u>	<u>\$ 39,247</u>	<u>\$ 1,177,585</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Reconciliation of Balance Sheet of Governmental Funds to Net Assets
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 390,359
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet.	
Cost of capital assets	7,801,113
Accumulated depreciation	(3,581,969)
Interest is accrued on outstanding long-term bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.	
	(44,493)
Bond issuance costs are recorded in governmental activities as a deferred charge, whereas in governmental funds, the costs are reported as expenditures when paid.	
	67,004
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.	
Bonds payable, net	(3,405,319)
Retirement allowances	(36,000)
Total net assets - governmental activities	<u>\$ 1,190,695</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2007

	General	2005 Refunding Debt Service	Other Nonmajor Governmental Funds	Total
Revenues				
Local sources	\$ 760,925	\$ 353,187	\$ 116,103	\$ 1,230,215
State sources	1,435,055	-	6,316	1,441,371
Federal sources	147,764	-	63,889	211,653
	<u>2,343,744</u>	<u>353,187</u>	<u>186,308</u>	<u>2,883,239</u>
Expenditures				
Current:				
Instruction	1,456,641	-	-	1,456,641
Support services	804,767	-	-	804,767
Food service	-	-	126,140	126,140
Athletics	-	-	106,988	106,988
Debt service:				
Principal	-	175,000	-	175,000
Interest/fees	-	137,268	-	137,268
Intergovernmental payments	2,023	-	-	2,023
	<u>2,263,431</u>	<u>312,268</u>	<u>233,128</u>	<u>2,808,827</u>
Excess (deficiency) of revenues over expenditures	<u>80,313</u>	<u>40,919</u>	<u>(46,820)</u>	<u>74,412</u>
Other financing sources (uses)				
Operating transfers in	12,000	-	54,802	66,802
Operating transfers out	(66,802)	-	-	(66,802)
	<u>(54,802)</u>	<u>-</u>	<u>54,802</u>	<u>-</u>
Net change in fund balances	25,511	40,919	7,982	74,412
Fund balances - beginning of year	<u>160,621</u>	<u>132,121</u>	<u>23,205</u>	<u>315,947</u>
Fund balances - end of year	<u>\$ 186,132</u>	<u>\$ 173,040</u>	<u>\$ 31,187</u>	<u>\$ 390,359</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 74,412
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the period.	(186,379)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	186,964
Proceeds from the note payable are reported as other financing sources in the governmental funds. In the Statement of Net Assets, these amounts increase a long-term liability. Discounts, premiums, losses and issuance costs are allocated over the remaining lives of the long-term debt. This amount represents the net effect of issuing notes payable and the current year amortization.	(10,059)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>(20,812)</u>
Change in net assets - governmental activities	<u><u>\$ 44,126</u></u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2007

	Student Activities Agency Fund
Assets	
Cash	<u>\$ 37,749</u>
Liabilities	
Due to student groups	<u>\$ 37,749</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Posen Consolidated School District No. 9 (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS No. 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the School District and included in the School District's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The School District has no component units.

Basic Financial Statements – Overview

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted state aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major funds, as described below, are the General and 2006 Refunding Debt Service Funds. Nonmajor funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred. The exceptions to this general rule are principal and interest on general obligation long-term debt, compensated absences, claims and judgments, and retirement allowances, which are recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Governmental Funds - Continued

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds – The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Cafeteria and Athletics Funds.

Debt Service Funds – The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The Debt Service Funds maintained by the School District are the 2005 Refunding and the Durant Non-Plaintiff Fund.

Capital Project Funds – The Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished. The School District does not maintain a Capital Project Fund at this time.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

Investments

Investments are stated at fair market value.

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$3,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land and improvements	10-20 years
Buildings and improvements	20-50 years
Furniture and other equipment	5-25 years

Retirement Allowance

Under contracts negotiated with employee groups, individual employees may have a vested right to receive payments for a retirement allowance calculated using formulae and conditions specified in the contracts. This amount is reported in the government-wide financial statements and represents a reconciling item between the government-wide and fund presentations.

Compensated Absences

Accumulated unpaid sick and vacation pay is not accrued by the School District. Employees are limited to the number of sick and vacation days they may accumulate. Sick and vacation days do not vest to the employee and are not payable upon termination, except when used to determine retirement allowance.

Comparative Data

Comparative total data for the prior year is not included in the School District's financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: BUDGETING/COMPLIANCE

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year-end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds. (The School District does not have any major Special Revenue Funds). In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund are presented. The School District did not have an excess of expenditures over appropriations for the General Fund.

NOTE 3: CASH AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits and investments are in accordance with statutory authority.

Cash Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a deposit policy for custodial risk. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$320,781 and the bank balance was \$361,729. Of the bank balance, \$170,562 was covered by federal depository insurance. The remaining \$191,167 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Investments

Credit Risk – As of June 30, 2007, the School District's investment in the Michigan Liquid Asset Fund investment pool of \$627,203 was rated AAAM by Standard & Poor's.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: PROPERTY TAXES – CONTINUED

The 2006 State taxable valuation of non-homestead property as of May 23, 2006 for Posen Consolidated School District No. 9 totaled \$40,753,625, on which taxes levied consisted of 16.8174 mills for operating purposes. The total taxable valuation of the School District as of May 23, 2006 was \$87,118,479, on which taxes levied consisted of 3.85 mills for debt retirement. These amounts are recognized in the respective General and 2006 Debt Service Funds.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

NOTE 5: CAPITAL ASSETS

Capital asset activity for the School District's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 2,485	\$ -	\$ -	\$ 2,485
Capital assets being depreciated:				
Land improvements	696,000	-	-	696,000
Buildings and improvements	6,234,467	-	-	6,234,467
Furniture and equipment	520,428	-	-	520,428
Vehicles	347,733	-	-	347,733
Subtotal	7,798,628	-	-	7,798,628
Accumulated depreciation:				
Land improvements	348,000	34,800	-	382,800
Buildings and improvements	2,452,724	117,634	-	2,570,358
Furniture and equipment	302,589	26,468	-	329,057
Vehicles	292,277	7,477	-	299,754
Subtotal	3,395,590	186,379	-	3,581,969
Net capital assets being depreciated	4,403,038	(186,379)	-	4,216,659
Governmental activities net capital assets	<u>\$ 4,405,523</u>	<u>\$ (186,379)</u>	<u>\$ -</u>	<u>\$ 4,219,144</u>

Governmental activities depreciation expense was charged as follows:

Unallocated \$ 186,379

NOTE 6: INTERFUND TRANSFERS

Interfund transfers consist of the following:

The General Fund made transfers in the amount of \$51,802 and \$15,000 to the Athletic and Cafeteria Funds, respectively. The General Fund makes transfers on a yearly basis to support these funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: SHORT-TERM DEBT – STATE AID NOTES

The School issues State aid notes in advance of State aid receipts, depositing the proceeds in the General Fund. This note is necessary due to reduced funding and because a State aid payment is not received in September.

Short-term debt activity for the year ended June 30, 2007, excluding interest expense of \$19,232, was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid note	<u>\$ -</u>	<u>\$525,000</u>	<u>\$ -</u>	<u>\$525,000</u>

NOTE 8: LONG-TERM DEBT

The following is a summary of the School District's governmental activities long-term debt transactions for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
General obligation debt	\$ 3,580,000	\$ -	\$ (175,000)	\$ 3,405,000	\$ 180,000
Bond premium	29,426	-	(1,962)	27,464	-
Refunding deferral	(108,518)	-	7,235	(101,283)	-
Bus note	59,819	-	(11,964)	47,855	11,964
Durant resolution debt	26,283	-	-	26,283	-
Total debt	3,587,010	-	(181,691)	3,405,319	191,964
Other liabilities:					
Retirement severance	36,000	-	-	36,000	-
Total governmental activities long-term liabilities	<u>\$ 3,623,010</u>	<u>\$ -</u>	<u>\$ (181,691)</u>	<u>\$ 3,441,319</u>	<u>\$ 191,964</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 8: LONG-TERM DEBT – CONTINUED

Long-term debt payable at June 30, 2007, is comprised of the following individual instruments:

General Obligation Bonds:

2005 Refunding Bonds due in annual installments of \$175,000 to \$260,000 through May 1, 2022; interest at 3.00% to 4.35%. \$3,405,000

Durant Resolution Bond:

1998 Series School improvement bond due in annual installments of \$2,257 to \$15,380 through May 15, 2013; interest at 4.76%. This bond is a self-liquidating bond. It is payable both as to principal and interest, solely from an annual appropriation by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. 26,283

Note Payable:

Bus note payable due in annual installments of \$11,964 through November 1, 2010; interest at 4.375% 47,855

Total bonds and notes payable 3,479,138

Retirement Severance:

Upon retirement, the District's certified employees who have between fifteen and twenty-nine years of continuous service in the Posen Consolidated School District may be eligible for either a severance allowance or other retirement incentive. 36,000

Total governmental activities long-term liabilities \$3,515,138

The annual requirements to amortize all governmental bond and note payable obligations are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 191,964	\$ 133,479	\$ 325,443
2009	199,441	128,730	328,171
2010	204,559	123,060	327,619
2011	227,343	121,977	349,320
2012	207,848	108,018	315,866
2013 - 2017	1,152,983	1,230,322	2,383,305
2018 - 2022	1,295,000	165,550	1,460,550
	<u>\$ 3,479,138</u>	<u>\$ 2,011,136</u>	<u>\$ 5,490,274</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 8: LONG-TERM DEBT – CONTINUED

Bond payments, including interest, are made from the Debt Service Funds. There are limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions. The retirement severance liability will be liquidated primarily by the General Fund.

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

Posen Consolidated School District No. 9 contributes to the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple employer, statewide public employee retirement plan governed by the State of Michigan and created in 1915. MPERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits to the State's public school employees. MPERS now operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees' Retirement System, P.O. Box 30171, Lansing, MI 48909-7671 or by calling (517) 322-5103.

Prior to January 1, 1990, MPERS provided a choice of two retirement plans, the Basic Plan, which required no employee contribution and the Member Investment Plan (MIP). For members hired on January 1, 1990 or after, membership in MIP is mandatory. MIP members are required to contribute 3 to 4.3 percent of their annual covered salary and Posen Consolidated School District No. 9 is required to contribute at an actuarially determined rate. The current rate is 17.74% of annual covered payroll, of which approximately 6.55% is for other post employment benefits (see below). The contribution requirements of plan members and Posen Consolidated School District No. 9 are established and may be amended by the MPERS Board.

The School District's contribution to MPERS for the years ending June 30, 2007, 2006 and 2005 were \$213,763, \$182,960 and \$186,248 respectively, equal to the required contributions for each year.

Other post employment benefits

Also under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis. Retirees having these coverage's contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for health, dental and vision coverage's. The number of plan participants and other relevant financial information consisted of the following at June 30, 2006, the date of the latest actuarial valuation.

Eligible retired participants	157,163
Participants receiving benefits:	
Health	119,462
Dental/Vision	126,828
Expenses for the year	\$694,313,906
Payroll contribution rate	6.55%

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: RESERVES AND DESIGNATIONS OF FUND BALANCES

Major Governmental Funds

Debt Service Fund – The Debt Service Fund's reserved fund balance represents resources legally restricted for the payment of principal and interest amounts maturing in future years.

NOTE 11: RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District also belongs to the SEG Self-Insured Workers' Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the state. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

NOTE 12: CONTINGENCY

Posen Schools may be subject to a potential liability resulting from a recent audit of Pulawski Township. As a result of that audit, the school may owe Pulawski Township for Industrial Facility Taxes which were paid to them in error. At this time, no provision has been made for any potential liability, as the amount is not yet determined.

REQUIRED SUPPLEMENTAL INFORMATION

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 678,000	\$ 749,200	\$ 760,925	\$ 11,725
State sources	1,538,659	1,426,660	1,435,055	8,395
Federal sources	149,787	144,943	147,764	2,821
Total revenues	<u>2,366,446</u>	<u>2,320,803</u>	<u>2,343,744</u>	<u>22,941</u>
Expenditures				
Current:				
Instruction:				
Basic programs	1,239,326	1,240,770	1,243,659	2,889
Added needs	255,456	224,032	212,982	(11,050)
Support services:				
Pupil	1,000	1,000	565	(435)
Instructional staff	4,900	3,000	2,750	(250)
General administration	181,853	165,571	160,850	(4,721)
School administration	77,650	98,971	99,527	556
Business services	88,938	87,725	89,375	1,650
Operation and maintenance	279,212	260,679	247,411	(13,268)
Pupil transportation services	218,286	209,530	204,289	(5,241)
Intergovernmental payments	12,000	2,340	2,023	(317)
Total expenditures	<u>2,358,621</u>	<u>2,293,618</u>	<u>2,263,431</u>	<u>(30,187)</u>
Excess (deficiency) of revenues over expenditures	<u>7,825</u>	<u>27,185</u>	<u>80,313</u>	<u>53,128</u>
Other financing sources (uses)				
Operating transfers in	-	-	12,000	12,000
Operating transfers out	(73,000)	(73,000)	(66,802)	6,198
Total other financing sources (uses)	<u>(73,000)</u>	<u>(73,000)</u>	<u>(54,802)</u>	<u>18,198</u>
Net change in fund balance	(65,175)	(45,815)	25,511	71,326
Fund balance - beginning of year	<u>160,621</u>	<u>160,621</u>	<u>160,621</u>	<u>-</u>
Fund balance - end of year	<u>\$ 95,446</u>	<u>\$ 114,806</u>	<u>\$ 186,132</u>	<u>\$ 71,326</u>

OTHER SUPPLEMENTAL INFORMATION

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	
	<u>Cafeteria</u>	<u>Athletics</u>	<u>Durant Non-Plaintiff</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 23,016	\$ 15,019	\$ -	\$ 38,035
Due from other governmental units	1,212	-	-	1,212
Total assets	<u>\$ 24,228</u>	<u>\$ 15,019</u>	<u>\$ -</u>	<u>\$ 39,247</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accrued expenditures	\$ 5,635	\$ -	\$ -	\$ 5,635
Salaries payable	2,425	-	-	2,425
Total liabilities	<u>8,060</u>	<u>-</u>	<u>-</u>	<u>8,060</u>
Fund balances:				
Unreserved:				
Undesignated	<u>16,168</u>	<u>15,019</u>	<u>-</u>	<u>31,187</u>
Total fund balances	<u>16,168</u>	<u>15,019</u>	<u>-</u>	<u>31,187</u>
Total liabilities and fund balances	<u>\$ 24,228</u>	<u>\$ 15,019</u>	<u>\$ -</u>	<u>\$ 39,247</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2007

	Special Revenue Funds		Debt Service Fund	
	Cafeteria	Athletics	Durant Non-Plaintiff	Total
Revenues				
Local sources	\$ 52,188	\$ 63,915	\$ -	\$ 116,103
State sources	6,316	-	-	6,316
Federal sources	63,889	-	-	63,889
Total revenues	122,393	63,915	-	186,308
Expenditures				
Current:				
Food service	126,140	-	-	126,140
Athletics	-	106,988	-	106,988
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	126,140	106,988	-	233,128
Excess (deficiency) of revenues over expenditures	(3,747)	(43,073)	-	(46,820)
Other financing sources (uses)				
Operating transfers in	15,000	51,802	-	66,802
Operating transfers (out)	-	(12,000)	-	(12,000)
Total other financing sources	15,000	39,802	-	54,802
Net change in fund balances	11,253	(3,271)	-	7,982
Fund balances - beginning of year	4,915	18,290	-	23,205
Fund balances - end of year	\$ 16,168	\$ 15,019	\$ -	\$ 31,187

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Statement of Receipts and Disbursements
Fiduciary Fund
Year Ended June 30, 2007

	Balance July 1, 2006	2006-2007		Balance June 30, 2007
		Receipts	Disbursements	
Class of 2007	\$ 13,146	\$ 32,895	\$ 46,041	\$ -
Class of 2008	15,554	28,546	21,268	22,832
Class of 2009	1,284	4,177	2,692	2,769
Class of 2010	-	15,307	10,488	4,819
Horticulture Club	464	196	660	-
National Honor Society	74	261	238	97
Pep Club	2,438	16,091	16,396	2,133
Ski Club	436	1,317	1,283	470
Student Activities - Revolving	650	3,304	2,193	1,761
Student Council	2,202	14,452	13,786	2,868
Yearbook	1,389	9,790	11,179	-
	<u>\$ 37,637</u>	<u>\$ 126,336</u>	<u>\$ 126,224</u>	<u>\$ 37,749</u>
Total	<u>\$ 37,637</u>	<u>\$ 126,336</u>	<u>\$ 126,224</u>	<u>\$ 37,749</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Schedule of Bonded Indebtedness
June 30, 2007

<u>TITLE:</u>	2005 Refunding Bonds
<u>PURPOSE:</u>	To refund the 1996 Refunding Bonds
<u>DATE OF AGREEMENT:</u>	February 05, 2005
<u>RATE OF INTEREST:</u>	3.00% to 4.35%
<u>ORIGINAL OBLIGATION:</u>	\$ 3,750,000
<u>AMOUNT PREVIOUSLY PAID:</u>	<u>345,000</u>
<u>BALANCE OUTSTANDING - JUNE 30, 2007:</u>	<u><u>\$ 3,405,000</u></u>

<u>Fiscal Year</u>	<u>November 1 Interest</u>	<u>May 1 Interest</u>	<u>Principal</u>	<u>Annual Requirements</u>
2007-08	\$ 65,932	\$ 65,932	\$ 180,000	\$ 311,864
2008-09	63,233	63,233	185,000	311,466
2009-10	60,457	60,457	190,000	310,914
2010-11	57,370	57,370	200,000	314,740
2011-12	53,870	53,870	205,000	312,740
2012-13	49,770	49,770	210,000	309,540
2013-14	45,570	45,570	220,000	311,140
2014-15	41,170	41,170	230,000	312,340
2015-16	36,570	36,570	240,000	313,140
2016-17	32,010	32,010	250,000	314,020
2017-18	27,135	27,135	255,000	309,270
2018-19	22,035	22,035	260,000	304,070
2019-20	16,705	16,705	260,000	293,410
2020-21	11,245	11,245	260,000	282,490
2021-22	5,655	5,655	260,000	271,310
	<u>\$ 588,727</u>	<u>\$ 588,727</u>	<u>\$ 3,405,000</u>	<u>\$ 4,582,454</u>

Call provision:

Bonds of this issue maturing in the years 2007 through 2015, inclusive, are not subject to optional redemption prior to maturity. The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2016 may be redeemed at the option of the District in such order of maturity as the District shall determine and within each maturity by lot on any date occurring on or after May 1, 2015. The Bonds called for redemption shall be redeemed at par plus accrued interest to the date fixed for redemption, without premium or penalty.

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Schedule of Bonded Indebtedness
June 30, 2007

<u>TITLE:</u>	Durant Resolution Package Bond School Improvement Bond, Series 1998
<u>DATE OF ISSUE:</u>	November 24, 1998
<u>RATE OF INTEREST:</u>	4.761353%
<u>ORIGINAL OBLIGATION:</u>	\$ 44,512
<u>AMOUNT PREVIOUSLY PAID:</u>	<u>18,229</u>
<u>BALANCE OUTSTANDING - JUNE 30, 2007:</u>	<u><u>\$ 26,283</u></u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>May 15, Interest</u>	<u>May 15, Principal</u>	<u>Annual Requirements</u>
2008-09	4.761353%	\$ 649	\$ 2,477	\$ 3,126
2009-10	4.761353%	531	2,595	3,126
2010-11	4.761353%	5,622	15,380	21,002
2011-12	4.761353%	278	2,848	3,126
2012-13	4.761353%	<u>142</u>	<u>2,983</u>	<u>3,125</u>
		<u><u>\$ 7,222</u></u>	<u><u>\$ 26,283</u></u>	<u><u>\$ 33,505</u></u>

Call provision:

This Bond is not subject to redemption prior to maturity by the District.

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Schedule of Bonded Indebtedness
June 30, 2007

<u>TITLE:</u>	Purchase 2006 International School Bus
<u>DATE OF ISSUE:</u>	November 29, 2005
<u>RATE OF INTEREST:</u>	4.375%
<u>ORIGINAL OBLIGATION:</u>	\$ 59,819
<u>AMOUNT PREVIOUSLY PAID:</u>	<u>11,964</u>
<u>BALANCE OUTSTANDING - JUNE 30, 2007:</u>	<u><u>\$ 47,855</u></u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Annual Interest</u>	<u>Annual Principal</u>	<u>Annual Requirements</u>
2007-08	4.375000%	\$ 1,615	\$ 11,964	\$ 13,579
2008-09	4.375000%	1,615	11,964	13,579
2009-10	4.375000%	1,615	11,964	13,579
2010-11	4.375000%	1,615	11,963	13,578
		<u>\$ 6,460</u>	<u>\$ 47,855</u>	<u>\$ 54,315</u>

Call provision:

This debt is not subject to redemption prior to maturity by the District.

INTERNAL CONTROL AND COMPLIANCE REPORTING



September 14, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Superintendent and Board of Education
Posen Consolidated School District No. 9
Posen, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Posen Consolidated School District No. 9 (the "School District") as of and for the year-ended June 30, 2007, which collectively comprise Posen Consolidated School District No. 9's basic financial statements and have issued our report thereon dated September 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Posen Consolidated School District No. 9's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion of the Posen Consolidated School District No. 9's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Posen Consolidated School District No. 9's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

The School District does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to newly issued auditing standards, this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the School District's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes and State of Michigan FID reporting is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Posen Consolidated School District No. 9's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
FOR THE YEAR ENDED JUNE 30, 2007.

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9 FOR THE YEAR ENDED JUNE 30, 2007.